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Communications and Minority Enterprise in the 1990s

September 26 - 27, 1990

Conference Agenda



COMMUNICATIONS AND MINORITY ENTERPRISE

IN THE 1990s

Report of Conference
Sponsored by

**FEDERAL COMMUNICATIONS COMMISSION
NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION
HOWARD UNIVERSITY SMALL BUSINESS DEVELOPMENT CENTER**

SEPTEMBER 26-27, 1990

CONFERENCE REPORT

COMMUNICATIONS AND MINORITY ENTERPRISE IN THE 1990s

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Chapter 1: REVIEWING THE UNDERTAKING

I. CONFERENCE OBJECTIVES AND ACTIVITIES

The Federal Communications Commission (FCC) and the National Telecommunications and Information Administration (NTIA) have policies and programs aimed at expanding the participation of new entrants in communications. Both agencies have also sponsored or cosponsored seminars in the past in support of minority and female enterprises. The September 1990 conference continued this effort, and endeavored to expose conference attendees to a broad range of subjects. First, the conference addressed communications enterprises in addition to radio and television broadcasting. For example, private mobile radio services, "wireless" cable television, the home satellite receiver business, and various high technology sectors were discussed.

Second, a concerted effort was made to involve a broad spectrum of participants. The three plenary sessions, and concurrent workshops were attended by many entrepreneurs, financial and investment industry experts, business and management authorities, government officials from the FCC and NTIA, and representatives of the Washington communications community. This effort ensured that conference attendees were exposed to the broadest possible range of experts. It also allowed attendees to establish contact with individuals and

organizations who are active in various communications businesses.¹

II. SMALL BUSINESS AND SOCIETY

The 1990 conference focused on a discussion of communications opportunities that would be accessible to small businesses and new entrants. Throughout the conference, attendees learned the vital role that small businesses play in our communications industry and overall economy.

Characteristics of some of the most advanced economies in the 1990s include: broad-based access to advanced technology; rapid dissemination of the results of large-scale research programs; reliance upon competitive free enterprise; expanding job markets; and attractive investment opportunities. Small business, and the entrepreneurial spirit which it engenders, plays a central role in furthering the key characteristics of a successful modern economy. In communications, it often has been through the initial endeavors of small entrepreneurs that our society has achieved significant technology breakthroughs. For example, many of the advances in the customer premises equipment (CPE) market were made by small business vendors. Further, in cable television, a broad range of new information, news, and

¹ As part of the Commission's ongoing effort to keep the public informed, conference attendees are encouraged to keep abreast of seminars and conferences sponsored periodically by the FCC's Consumer Assistance and Small Business Division and the FCC's Office of Minority Enterprise within the Office of Public Affairs.

entertainment offerings have been brought to the American public by firms which started as small commercial enterprises.

Small business entrepreneurs are usually very competitive and therefore, reinforce the American marketplace traditions of efficiency, productivity and innovation. More importantly, small business ventures are a means of attaining individual prosperity, particularly for those who are willing to work hard and take the risks.

Chapter 2: COMMUNICATIONS SECTOR OVERVIEW

I. IMPORTANCE OF EXPANDING COMMUNICATIONS OPPORTUNITIES

During the 1990s, the communications industry is likely to be one of the major sectors of the economy that will continue to provide small business opportunities for new entrants. Many segments of the communications industry experienced strong growth during the 1980s. In the decade ahead, communications technology and services are likely to play an even greater role in domestic and international economic growth.

II. SURVEYING THE "INFORMATION ECONOMY"

The United States "information economy" is essentially composed of all electronic communications together with

associated computer products.² The communications industry accounts directly for about \$400 billion in annual domestic economic activity and employs slightly less than 2 percent of the American work force.³ This sector includes: traditional long-distance and local telephone service; radio and television broadcasting; the cable television business; mobile radio; communications satellite services; and a majority of U.S. computer-data processing operations.

Throughout the 1980s, the communications industry was one of the few sectors of the U.S. economy which consistently expanded in terms of the percentage of Gross National Product (GNP) and the share of the national work force. In fact, the U.S. information economy basically doubled during this period. Today, approximately 6 percent of GNP derives from this sector,⁴ accounting for some 3 million American jobs.

In general, the information economy consistently has displayed annual growth rates that have been greater than those

² The information economy also includes activities such as publishing and the delivery of printed material. For purposes of this conference and report, however, the focus was on electronic communications.

³ For general background reference on communications industry trends and developments, See NTIA Telecom 2000, Charting the Course for a New Century, NTIA Special Publication 88-21, U.S. Department of Commerce, October 1988 (NTIA Telecom 2000). See also, The NTIA Infrastructure Report: Telecommunications in the Age of Information, U.S. Department of Commerce, October 1991.

⁴ NTIA Telecom 2000 at 25.

for the economy at large. Not fully reflected in this trend are the following factors:

(1) Virtually the entire domestic world banking and financial services sector has become dependent on telecommunications and associated computer operations. The "computerization" of this sector, begun in earnest in the late 1970s, has resulted in global capital markets characterized by unparalleled trading volumes and velocity.

(2) Most of the U.S. retail sector, which is the largest single component of the economy, is also heavily dependent on electronic communications and computers. Such uses include: point-of-sales terminals; electronic ordering and inventory management systems; "telemarketing" and mail-order sales; grocery and other store "scanning" equipment; and the now ubiquitous Universal Product Code markings.

(3) Mass media communications have become preeminent in both domestic and world politics. Domestically, public elections increasingly revolve around media opportunities and access. Internationally, Central and Eastern European developments, as well as the recent crisis in the Middle East, demonstrate the social

changes that, in part, have been influenced by the electronic media's coverage of world events.

(4) Broadcasting remains the premier advertising medium. Broadcast advertising constitutes a principal underpinning for much of the U.S. retail sales and mass production economy. The demand for advertising has been relatively concentrated: five firms account for approximately 20 percent of the demand; and twenty companies account for almost 50 percent of total broadcast advertising spending.⁵ In addition, during the last ten years, cable television has evolved into a strong competitor for national and local advertising revenues. During 1990 and 1991, major cable television networks experienced growth in advertising revenues.⁶

(5) Telecommunications and computers have significantly altered the way most American companies conduct business. The combination of these technologies have broken down geographic barriers to competition in much the same way as the development of the interstate highway system removed transportation barriers. Tallying all electronics-based systems, the total U.S. capital stock in telecommunications

⁵ NTIA Telecom 2000 at 23.

⁶ "Coen Cuts Advertising Forecast," Broadcasting, June 10, 1991, p. 59.

exceeds \$750 billion, which is more than twice the gross stock of fixed private capital invested in agriculture, forestry, and fisheries; and nearly twice the total federal, state, and local outlays for all roads between 1970-89; and at least 10 percent more than the entire U.S. transportation sector. The United States currently has more national capital invested in telephone, broadcast, mobile radio, cable television, and other electronic communications assets than any other nation.

III. DEREGULATED GROWTH CONDUCIVE TO ENTRY

Today, overall demographic and macroeconomic considerations indicate that there will be substantial growth in communications and information markets during this decade, and indeed, well into the first decade of the 21st century.⁷ Small business entrepreneurs might assume that most commercial prospects lie chiefly within the ambit of the conventional, pervasively regulated parts of the communications industry; but statistics demonstrate this is not necessarily the case. Common-carrier (i.e., public communications) systems account for most of the U.S. telecommunications capital stock. However, the current investment trend is shifting more towards "independent" private communications investments.

⁷ "A Second Look At Industry Output And Employment Trends", Monthly Labor Review, Vol. 108 No. 11, November, 1985, p. 26. See also NTIA Telecom 2000 at 57.

Statistics indicate that, in general, the less regulated a given communications market, the faster that market grows.⁸ For example, during the last half of the 1980s, regulated telephone revenues grew at a rate of less than 7 percent annually-- faster than the U.S. economy overall, but slower than the 10 to 12 percent growth seen in less regulated markets (e.g., equipment and private facilities-based networks). In mass media, the home video market experienced a compound annual growth rate of more than 35 percent between 1983 and 1989, and the cable television business experienced a 26 percent annual growth rate. In contrast, revenues for the more regulated broadcast television business grew by only about 16 percent a year.⁹

Throughout the 1980s, there was a progressive decoupling of the established regulatory regime and the overall telecommunications and information services market. In other words, the percentage of the overall economic activity directly within control of traditional federal and state regulatory agencies declined -- partly because of "deregulation", partly because of the rapid growth in non-carrier investment, and partly because non-regulated markets consistently outperformed regulated operations. This trend in communications is analogous

⁸ Other factors, such as the development of new technologies and the overall potential market size, also affect the rate of growth.

⁹ See generally, NTIA Telecom 2000.

to developments in other erstwhile, pervasively regulated sectors of the economy (e.g., energy and transportation).

By the mid-1990s, if current trends continue, traditional regulated enterprises such as the telephone companies could account for about half of the overall economic activity in telecommunications. In short, more and more of the market is likely to be comprised of enterprises, including the unregulated affiliates of the telephone companies, that are not as extensively regulated by government.

IV. MORE COMMUNICATIONS FOR A MORE MOBILE SOCIETY

Today, there are about 5.3 million cellular telephone subscribers¹⁰ and about 2 million paging service subscribers -- a small percentage, obviously, of the estimated 96 million U.S. household telephone subscribers.¹¹ Throughout the remainder of the 1990s, economies of scale -- created by reduced mobile equipment costs and the increased use of spectrum efficient techniques -- should push the average price of mobile services downward; and as the price range lowers, potential demand for mobile services should continue to increase.

V. MORE DEMAND FOR "ONE-STOP SHOPPING"

¹⁰ Donaldson, Lufkin & Jenrette, The Cellular Communications Industry, p. 11, Spring 1991.

¹¹ "Telephone Subscribership in the U.S.", Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission, September 1991.

Trends in cellular suggest that business prospects for firms which market, install, and service equipment, as well as supply monthly service (reselling capacity obtained from facilities-based cellular carriers), should be reasonably attractive. The prospects also should be good for companies that target the communications equipment market generally-- particularly the retail and residential customer sector.

The U.S. residential telephone handset embedded base today accounts for at least 240 million units, with perhaps one-quarter of those units (including an estimated 50 million rotary dial units) near the end of their useful life. CPE sales in 1990 exceeded \$4 billion, of which about half represented sales to residential customers; such sales have been projected to increase over the next five years as customers replace outmoded or worn-out equipment.¹²

While CPE sales today represent a competitive, relatively low margin business, there is significant growing demand for installation and maintenance services. In multi-family housing units, there is an increasing use of private branch exchange (PBX) equipment which can provide residents with more sophisticated phone services -- e.g., automatic least-cost routing of long-distance calls. In the private residential market, customer demand for full-featured communications system

¹² See generally, "On The Rebound; Small Key Telephone," Teleconnect, Feb. 1991. See also, NTIA Telecom 2000.

installation and maintenance appears to be growing stronger. These trends suggest that the commercial prospects in the multi-family and private residential markets appear strong for those firms who will be able to package a variety of communications, information, and equipment services. Moreover, customer surveys commissioned by the telephone industry indicate significant demand for "one-stop-shopping", even if such a service entails a five to ten percent price increase for total communications services.¹³

VI. MEETING SMALL TO MID-SIZED BUSINESS REQUIREMENTS

There also are indications that small and mid-sized businesses will increasingly demand "one-stop shopping" communications services. Marketing experts forecast rapid growth in the number of such firms over the next decade, as "bimodal distribution" becomes increasingly predominant in the retailing sector. By "bimodal distribution," experts mean the evolution of progressively larger and larger companies targeting national or international markets, accompanied by a proliferation of much smaller firms serving narrower "niche" markets that are more labor intensive; and thus cannot easily or profitably be served by giant multinational operations.

¹³ See generally, "AT&T Announces Formation Of Home Office Network," PR Newswire, October 15, 1991. See also, "The Long View On Long Distance," Data Communications, p. 59, Feb. 1990.

Examples of niche markets include many categories of legal practice, accounting, property management, and other types of "specialty boutiques". All of these businesses have their own communications and information services requirements. Such businesses are not always targeted by the larger communications or computer firms. Thus, in some areas, small communications businesses have emerged to offer other small businesses "turn-key package deals", including communications and computer services. These small business customers typically lack in-house communications or computer expertise. Thus, they represent a potential growth market for small to mid-size communications service vendors.

Chapter 3: DESCRIPTION OF THE CONFERENCE

I. OPENING REMARKS

FCC Chairman Alfred Sikes, Commissioner Andrew Barrett, Assistant Secretary of Commerce for NTIA Janice Obuchowski, and the Director of the Howard University Small Business Development Center, Nancy Flake, provided opening comments for the conference. Each talked about their awareness and sensitivity to the personal challenges faced by those who wish to achieve success in the communications industry. They emphasized the importance of obtaining information concerning opportunities available to small business entrepreneurs in today's communications market. Beyond traditional broadcasting, they

encouraged those attending to expand their entrepreneurial horizons to include such business opportunities as wireless cable, mobile radio services, and information services. The primary focus of the conference was to address general communications business areas, and identify those services that a small business entrepreneur could provide in today's marketplace.

II. PLENARY SESSIONS

There were three plenary sessions conducted during the first day of the conference. Two of these sessions, "Mobile Radio and High Technology Services", and "Broadcast, Cable and Wireless Cable", served as an overview for the type of issues that would be discussed during the scheduled workshops that followed. The summary findings of those workshops are included in Chapter 5 of this report. The third plenary session, "Getting Started," addressed the general business and legal issues encountered when starting a communications business. Because the findings in this panel raised general points crucial to a plan for any new communications business, these issues are highlighted in the next chapter. Conference attendees are encouraged to refer to the conference agenda in Appendix 1 of this report to review the panelists who spoke at each session. Post conference statistics also are included for general reference in this Appendix.

Chapter 4: GETTING STARTED

I. INTRODUCTION

There were several sessions during the first day of the conference that addressed the issue of "Getting Started". In addition to the plenary session, which addressed the critical elements of business and financial planning, important remarks also were provided by Mr. Joshua Smith, Chairman of the President's Commission on Minority Business Enterprise and CEO of the Maxima Corporation. Thus, this chapter starts by reviewing his luncheon remarks and then summarizes factors covered during the "Getting Started" session. In addition, workshop discussions that reviewed general financial planning issues also are incorporated into Section IV of this chapter.

II. LUNCHEON REMARKS

FCC Commissioner Ervin Duggan provided remarks from his personal experiences and introduced the luncheon speaker, Mr. Joshua Smith. Mr. Smith, Chairman of the President's Commission on Minority Business Development, made several points about entrepreneurship during the luncheon speech. He emphasized the need to develop a greater business acumen in minority communities. His remarks provided an excellent overview of the attributes required to "get started" in any business. Mr. Smith's primary points to new business entrants were:

(1) Focus on fundamental principles of personal and community development. These include setting goals; obtaining a solid education; developing discipline and focus; taking responsibility; and developing a sense of shared values and community.

(2) Realize that in a democratic society, economic freedom is the best guarantee for civil rights.

(3) One of the best roads to economic freedom is to participate in business and become one of the country's entrepreneurial engines. Mr. Smith emphasized the importance of supporting national policies that promote education and entrepreneurship.¹⁴

III. BUSINESS PLAN

Prior to approaching prospective financial investors, it is crucial for an entrepreneur to prepare a thorough business plan. Organizations such as the Small Business Administration (SBA) or one of the nationwide small business assistance centers, such as Howard University's Small Business Development Center, can provide invaluable counseling in areas of marketing, financial planning, and accounting. A highly recommended program offered

¹⁴ See also, Joshua I. Smith: "A Model and an Advocate for Minority Business", The Washington Post, April 11, 1991, p. B-13; and Historically Underutilized Businesses, United States Commission On Minority Business Development, Interim Report (1990).

by these centers is a fourteen-week Business Development Certificate program on starting a new business.

Panelists advised the entrepreneur to be prepared to show: (1) significant management experience and a quality support staff; (2) extensive knowledge and experience in the service you seek to provide; (3) thorough preparation of a technical proposal for the relevant service; (4) identification of advantages and disadvantages of the service in the respective market; and (5) a detailed budget of initial operating expenses and realistic revenue projections.

For those without personal access to money, the advice is to become familiar with bankers, or other lending and investment sources. One venture capitalist indicated that this process should be a regular part of your business undertaking. This is a process that will take time. The key is to convince lending sources that you, as an individual or group, are a worthwhile investment. The lender wants to protect his money, and may take as long as a year of "getting to know you" before he puts any money into the deal.

Learning the language of investing also is crucial. For example, in the business of lending "no" does not always mean no. A "no" may simply mean that you have not given the lender the right information. Learning to understand these subtle differences is important.

Another important factor in formulating a business plan is gathering the professional assistance necessary to navigate the

regulatory and business process you will face. Learning how to manage your professional advisors will be a task in itself. The entrepreneur must learn which professional to use for a particular task. For example, your local attorney may be able to handle general contract issues, but may know little about FCC regulations or even local cable regulations. Thus, for any FCC requirements, it is probably better to obtain counsel who has experience in the relevant communications matters. Learning how to work with experts, such as accountants, engineers or lawyers, should allow you to operate more efficiently, and save you time and money. As you formulate your business plan, part of that process will be deciding which of these experts can provide the best service for your endeavor.

For those getting involved in broadcasting or cable, panelists indicated that these mass media services are more mature businesses. Thus, new entrepreneurs will need to show how they can do a better job with a media property than the current licensee or franchise holder.

One example of the planning and execution required in a media business plan is demonstrated by the story of a small media communications company. This company starts by looking for a market with no more than two independent television stations. It looks for a station with a small share of the market. Once a station is selected as a possible purchase, it begins making contingent program purchases and takes surveys of signal strength and population growth. Once the station is purchased, the